Episode 135 RISA® in Action with James Matthews

Wed, Jul 17, 2024 3:45PM • 59:45

SUMMARY KEYWORDS
retirement income, advisor, retirement, wade, people, income, approach, james, retire, retirement planning, talking, social security, client, default, frankly, retirement income planning, returns, individual, point, started

SPEAKERS
Alex Murguia, Wade Pfau, James Matthews, Bob French

Bob French 00:00
The purpose of retire with style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to risaprofile.com/style and sign up to take the industry's first financial personality tool for retirement planning. What do we want? A strategic approach to retirement planning that's built around individuals, personal approach to retirement income in their holistic situation. When do we want it now, admittedly not very catchy. Still true. Hey

Wade Pfau 00:56
everyone. Welcome to retire with style. I'm Wade, and I'm here with Alex, and we are joined this week by James Matthews, a financial advisor who has spent much of his career in the retirement income space, who has a lot of interesting ideas to talk about with the retirement income style awareness. I first met James at a conference in Chicago in october 2022 and I'm glad to talk to you again, James, and welcome you to the show, and welcome Alex here to the show as well. And we hopefully have a great conversation about just ideas thoughts related to retirement income and also how the retirement income style awareness framework fits into all that, really going beyond some of the research. Welcome to the show, James.

James Matthews 01:35
Thank you guys for having me. It's exciting to be here. I

Alex Murguia 01:38
appreciate it, all right. And yeah, no, no, we're thrilled as well. This is we tried before, and we had a little hiccup on our end. So twice as nice, right? So in terms of living up to Wade's expectations to get this from a good to great podcast episode, do you mind giving us a telling us a little bit about yourself, background, etc, so folks listening in can have some context with Yeah, the advice you're you're conveying

James Matthews 02:06

absolutely sure. So again, thank you both for having me. I've been admiring your work from a distance for some time. Wade, I've probably been reading what you've been publishing since you've been publishing it back in probably 2012 ish or so following you since then, and I began my career about 20 years ago. So it's hard to believe it's been that long now, but here we are, two decades later, and started in the in the banking world, and did that through the financial crisis, and came out the other side in one piece, and it got securities licensed and really got into the more investment realm as part of that experience, and then migrated into the retirement plan world, and worked for one of the large retirement plan administrators for about four years as they were building out their financial advice and financial wellness programs as that that buzzword was Becoming a bigger thing, and worked in the Managed Accounts area there, as well as that was being developed, and eventually ended up running the unit there at that company. And had about 18 or so advisors that reported to me, and this was all in the retirement income plan space for big Fortune 500 company, 401 K plans, right? So you're big, big, big company plans. And I learned a lot in that experience, but also became pretty aware pretty early on. I would say that you know, a lot of the traditional retirement planning advice that was out there, that much of what you have talked about here in past episodes seemed somewhat lacking from a from an academic perspective, and so I went through the rsep program at the American College and lo and behold, I learned a lot of other ways to approach retirement income than a lot of what the more traditional methods might have suggested at the time. So really, all along the way, it's been a topic that's been of interest to me. I feel like it's something that's really important. And it's been something that, traditionally, financial planning just really hasn't up until maybe the last few years, been paying a lot of attention to in detail. And so when I became aware of what you were doing with Theresa, I got pretty excited about it, because I finally felt like, you know, here was the thing that was missing that was an actual, empirical way of helping people identify, you know, not only the fact that, yes, there are other paths that exist beyond, you know, what that sort of default or traditional approach might look like, but you know, there are different preferences even that drive that. And so it was, it was pretty, pretty exciting and pretty interesting to see what you put together. There no no

Alex Murguia 04:43
thank you for that. Then we're we're excited that it's having this kind of impact. We hear it from advisors, and we hear it from individuals all the time, and speaking about preferences, before we really dig in, we have to, you know, begin with a preamble that's part of the tradition. Sure retire with style. Wait, what is your preference for getting up in the morning? What time? What time do you prefer to get up in the morning at, you know, before you, you know right before you do your journaling and your morning yoga and cold plunge and all that kind of stuff. What time does the clock usually strike when you get up in the morning.

Wade Pfau 05:25
Wade me. For me, I would like to get up at around eight in the morning, but with during the school year, definitely wake up earlier with kids school, so

Alex Murguia 05:38
like seven days or something,

Wade Pfau 05:40
or 636

Alex Murguia 05:42
30. That's when you do your gratitude journal.

Wade Pfau 05:44
All right,

Alex Murguia 05:50
James, what about you? 420

James Matthews 05:59
I get up 420 every day, and is there any any

Alex Murguia 06:01
special significance at 420

James Matthews 06:04
I gotta be somewhere at 445 that's how long it takes me to get myself together out the door. But I don't have far to go, thankfully. But yeah, I'm an early riser. I get up and work out in the morning with a bunch of guys here in town, and we're outside somewhere every morning, six days a week, that that hour takes a special What

Alex Murguia 06:26
time

James Matthews 06:27
do you try to sometimes later than that. It just, it depends. Depends on how much school work I'm doing, how busy I am. That's like

Alex Murguia 06:35
such another world to me. That's like somebody telling me they jumped 20 feet in the air, or something like with regular I just can't fathom. Yeah,

James Matthews 06:43
so I was enjoying hearing about your your push up challenge and your pull up challenge.

Alex Murguia 06:48
Well, we had a couple of operations have gotten in the way, but we're gonna get back at it. Wade and I are just coming back from a trip to Louisville and Dallas and all of that with one of our associates, Trevor, and I don't think I've eaten as much in a in recent memory. It's almost like I'm back home and I'm like, You know what? It's time, so that's

James Matthews 07:10
a tough place to travel without eating. Well, I mean, there's, there's good, good food all over that region of the country, for sure.

Alex Murguia 07:16
Yeah, it's crazy. Uh, Trevor and I hit a cigar bar, and it's, we get out of there, and I got, I don't know, 1130 I don't know what it was. Wait and we're starving. Two towards White Castle. I The

damage that we did to a White Castle in Lexington. They're gonna put a plaque on that I even bought, like, a couple of shirts for my kids that said White Castle to commemorate the occasion. And I think we hit up a couple of, like, fried chicken joints. Gus is famous fried chicken, which is fantastic, but, yeah, it was crazy. And we're rolling home, and I can't even look at my wife in the face, which the shame, you know, I gotta uptro double my cholesterol medication.

James Matthews 08:00
But did you have fun? That's the important question. Yeah. Wade joined us. Yeah, we

Alex Murguia 08:04
were all over it. Wade, did you have a good time?

Wade Pfau 08:06
Yeah, well, I wasn't there for the White Castle portion. You'd gone a few days early to go on the Bourbon runs and stuff, but I came in for the actual meeting in Louisville. We still managed to,

Alex Murguia 08:23
yeah, we didn't want to play the ponies. There was a Keeneland. Keeneland is like a, you know, an in, you know, like a spring horse race over there in Lexington. It was first time ever been to horse races. It was, it's pretty cool. It was nice.

James Matthews 08:37
That would be, that sounds fun. I'd always like to go to Kentucky Derby. I would love to go sometime in person, just once, just to experience pretty cool,

Alex Murguia 08:45
yeah, for sure. Alright, sorry to take us apart there way, there from the thing. I was just, it's just the morning waking up routine that deserves special attention, just because, my goodness, I

James Matthews 08:58
haven't always done that. That was a learned behavior, but it was, uh, it's, it's kind of nice, and that, you know, your phone's not ringing and you're not getting emails, and it's like you just have that time in the morning, it's quiet, and you can sort of focus and get yourself together for the day. And if you do the hard stuff first, then everything else seems easy by comparison. So something like

Alex Murguia 09:15
that. When I'm in Japan,

Wade Pfau 09:17
I get that feeling, because when you wake up in the morning, you've got the whole day's worth of emails right there, and you can crank that out, and then everyone in America is sleeping throughout the day. In Japan got an empty inbox for the day.

Alex Murguia 09:31
I was thinking maybe it was because you were in the service or so were you in the service? Me? Now I thought it was that kind of thing. Maybe just got in that habit and never got out of it. No,

James Matthews 09:40
no. Probably the opposite of that habit for too long, and then, you know, that was the the remedy was just the the lifestyle change of kind of flipping things around, instead of staying up too late, getting up early. It just, it worked. Worked for me. So it's been good. No, no, yeah,

Alex Murguia 09:55
just amazing.

Wade Pfau 09:57
Well, were you going somewhere with this? Alex. No, just grand metaphor. Just

Alex Murguia 10:02
wanted our audience to recognize man. This man gets one in the morning like they're out there, they walk amongst us, kind of thing. I

James Matthews 10:11
never thought I'd be one of those people, but here we are, right. Yeah, all

Alex Murguia 10:15
right, sorry I took you away, but it's good everyone. Yeah, it's good to humanize and see what see, the measure of the man, if you will. So how do you want to begin Wade? We got some questions. You want to start ripping

Wade Pfau 10:28
them? Yeah, yeah. And so in the context of this, it's really for the audience with the retirement income style awareness. It's an assessment to help get people started on the right track for understanding which of the various viable retirement strategies might ultimately resonate best for their retirements. And James mentioned learning about that and really, then just having so many ideas coming out of that. So this is more an interview about, well, what, what kind of ideas did that generate or spear in your mind that might lead to further improvements and so forth and so getting into that. The first question is, just with the RESA framework, retirement income style awareness framework, how does that inform strategic asset allocation decisions within a retirement portfolio? From your perspective?

James Matthews 11:15
Yeah, I appreciate the question. To go back to what I had said earlier about working in the retirement plan world. You know, most 401, K plans have fairly limited investment options inside of them, typically. And you know, the the whole framework around the conversation about converting that into retirement income one day is a fairly thin, I think, conversation. There's not a lot of even educational material. I was doing probably close to 100 seminars a year for a couple of years, traveling in front of the plan participants. And even then, the conversations around retirement income were were more or less like the options they had at retirement about what they could do with the 401, K, but they weren't really income oriented conversations and so

Wade Pfau 12:02
like, rollover, right, just right, exactly.

Alex Murguia 12:07

But you that thought, I'm thinking somebody's listening in, and they heard your phrase say, limited investment options. And then, invariably, if somebody, somebody listening say, you know, that's a little crock, because once you have a market portfolio and a basic bond allocation, you're done, that's all those are all the options you need. I think you don't mean it from an investment standpoint. I think you mean it from the like, the holistic view of financial planning and drawing retirement income.

James Matthews 12:34
That's right, you know? I

Alex Murguia 12:34
mean, you may want to add that, because I don't want somebody to discount what you're saying because of the first statement you made, they just took it and tuned it off. Sure, that's

James Matthews 12:42
a great point. Yeah, so limited from the perspective of, you know, either having target date funds typically is an option, right, which you guys have talked about, but you know, the sort of age based automatic glide path option, which is a good option, I think, from the perspective of making it simple for people to choose investments, right, especially during the accumulation phase of things. That's, that's the wrinkle accumulation, right? But then you eventually, you reach that retirement date, and then what, you know, and there's no real mechanism to then take that and turn it into income in any clear sense. And you know to that point, Alex, there's other, there's other ways to approach, you know, accessing certain asset classes, even like, like bonds, for example, right? You can own individual bonds. You can own bond funds. But before, like, wastelands really don't give you that option. Or even, like a lot of the lifetime income solutions that you guys have talked about before, there's just more to it than the I've sort of taken to calling this two dimensional wealth maximization type of framework or paradigm where you know you have time across the y axis right horizontally, and then we have like asset value up the side right vertically on the x axis. And then you have like future values of time, thus you know returns equals value. This like up into the right mentality of investing, and then at some point, you cross this threshold where now we have to figure out, well, how do we, like live off of that? But we still have that framework in our minds, in the background, right? It's, you know, you're in the upper right hand quadrant of the RESA, that the total returns approach is really the the expression of that, I think, and that was all I had ever really been exposed to myself personally, even as someone you know, who was a Certified Financial Planner by that point, and you know, had been around the business quite a while, you know, leading a team of advisors in a in a retirement plan space, and then suddenly discovering there's, like, other methods to this, right? There's, there's more to it than that.

Alex Murguia 14:41
Yeah, it's funny that you say that. Go on,

Wade Pfau 14:44
wait. So it's almost like just this historical accident of we had the traditional defined benefit pensions that manage retirement income. We did away with those. We created the defined contribution pension world. But then that was just accumulation minded, and it offered a total. Returns approach. And no one thought, Well, what these individuals do post retirement? And it's it just defaulted into a total return environment. Yeah,

James Matthews 15:10
it feels like a builder as they fly it. Type of approach, right? That law got passed back in the late 70s, and then it took a long time for enough retirees to cycle through the system to get to the point where now they're ready to retire, and it's like, oh, we forgot to build that part.

Alex Murguia 15:23
I mean, not in fairness to them, but like, I don't believe the intention of that law was for retirement savings. It was more for tax deferral. Well, I guess that's retirement but, you know, I mean, it wasn't, I don't think they envision what it is today. Yeah,

Wade Pfau 15:38
okay, let's someone figured out a provision in the tax code for the full defined contribution world to grow out of.

Alex Murguia 15:46
Yeah. So it was all kind of done with that. It wasn't intentional. That's right. The other thing I would like to go on, because I don't know, we have a fair you know, a majority of the listeners are consumers, but I don't know if they realize this, but when you're going through the CFP, and that's to be a certified financial professional, there are modules, and within the module, there's modules on insurance, which, you know, will involve annuities and things along those lines. I'm willing to bet a lot of professionals that fancy themselves, Oh, look at me. I'm a Holistic financial advisor, you know, that kind of thing. And I'm saying that with a little in a joking manner. I don't want to offend anyone, but maybe I do, I don't know, but they take the CFP, they pass the insurance, but they treat it as a necessary evil to pass for the CFP and forget about it like it never existed for the rest of their life, right? They kind of tune themselves out. They never sharpen that iron for the rest of their career. Hence, there's somewhat, there's, there's actually a hole in their confidence, because they just, they just gravitate towards investments, because perhaps their business model aligns with that. And, you know, that's what I want to do, and that's all they do, you know. And so that's why, when you say, you know, they retire, then what? And they go to an advisor, or they do it themselves, or they read whatever the fund is, right? They don't really see contractual income as a viable option. But is this general sense of how I explain, you know, they take the CFP, they do the insurance part, to take it, and that's it. Goodbye. That that more or less maybe the ethics. No, I'm kidding.

James Matthews 17:23
Yeah, that's an interesting point. You know, it's funny. I've said for a long time to talking with other advisors. I do a lot of counseling and coaching and advisor development in my professional life. And you know, it's funny to me that the CFP Board of standards, of course, who puts together the curriculum for the designation programs, you know they agree that risk management's kind of important, that, like, after you learn to use a financial calculator, the very first module they make you take is risk management, right? If the risk piece is the first one, like even they agree it's important, and your point is well taken, though, that how all those modules fit together, from the perspective of actually, like strategic design of financial plans, and specifically retirement income plans for clients, is not something that's really at least that personally, I have seen, and this could have changed. It's been quite a while since I went through the program, but I'm not seeing the evidence of that from a couple different perspectives. And I think, you know, your point is well taken. And we have an entire, you know,

generation of people retiring at this point where the proof is, is there in that people are retiring into a scenario where those concerns haven't yet been addressed in a great many cases, despite, you know, however many of the 100,000 CFPs out there, I think at this point,

Alex Murguia 18:43
and I would think the new crops and CFPs are even more biased against having any insurance solution in place, because it's, you know, I'm I'm fee only, or I'm this or that, and that's it, and AUM rules a day, or maybe hourly, or something like that. And the other stuff is just for other people to worry about.

James Matthews 19:02
Yeah, I will say definitely that was part of what I've found so intriguing, frankly and attractive about the rscp program. And Wade had said about us meeting last in 2022 it was actually a 20. Wade in 2019 you might not even remember it back that far, but at a FPA symposium here in town. And I, as I was go, I was in the rscp program at that time when you were, when you were involved with it, and that was part of how I got into that program. Because it was really that realization that, like, wait a minute, you know, maybe there's more to retirement income than putting money into a plan that grows and then taking it out the same way you put it in, right? That's more or less the total, right? It's just in reverse of how you accumulated it. And I started seeing all these other methodologies, and of course, I was aware of them from a product perspective. I mean, gosh, you know, having been licensed as long as I had been, I mean, I was certainly aware of different types of annuities and things. Things. But that's not really the piece that's missing for people. It's not that there's a shelf of products that's missing, you know, that's empty and unstocked. It's that lacking is the strategic component of how do you take the building blocks off the shelf and put them together in such a way that helps people really maximize their living standards in retirement, right? To me, that's what's at risk and underweight. I know you've spoken about that quite a bit. It's about living standard. And if we can do things to help people improve their living standards and do it more efficiently or more safely or or both, frankly, right? And increase the likelihood of that persisting as long as they do. I think we have an obligation to be open minded about those things, if not to the point of making sure that we're making our clients aware that there are there's more than one way to get them there. I think we have an obligation to show them that. And again, I think that's where the reason has been helpful in making that more apparent to people, you know, the for the however, many people have taken the recent now, I'm sure it's quite a few, and you can speak to that, but yeah, I bet you know. I bet it would be interesting to find out from the all the recent takers what their feedback was, right? Like, did you know this was even a thing? Right? There's four quadrants, not one, because even, I think there's a lot of professionals that would be pretty surprised by that, frankly. Well,

Alex Murguia 21:27
that's what I was getting at, in terms of, there's just a like, professionals are kind of like, somewhat wanting, but wait, you're you seem to be getting ready to say something.

Wade Pfau 21:37
Yeah. I mean, that's one of the big motivations for even creating the ricp Was that the general financial planning designations really didn't address retirement income I think that CFP first was created in the 1970s and I often date the birth of retirement income planning to 1991 when Harry Markowitz pointed out that modern portfolio theory wasn't designed For the household

asset liability matching problem that's especially relevant in retirement when you're trying to live off your assets that you've accumulated. And so we needed further education. But right the CFP, because it developed before retirement income existed as a field or subfield within financial planning, the default is total returns. And so there really isn't even any sort of attention paid to the other styles for retirement income.

James Matthews 22:28
Yeah. And there's other factors at play too, I think. And, you know, just think about business, different business models, Alex, you mentioned a couple too. I mean, you know folks that if they're only billing methodology, and a firm is if they're like a wealth management, asset management firm, and you're billing on assets. Well, if your whole business model is that, that's your only revenue streams, and your clients are all spending down their assets because they're retired, well you're going to put yourself out of business pretty quickly, right? So there's an incentive too, I think, in there, not in a nefarious way, but just it just to, you know, Wealth Management is about growing people's wealth. Well, that's not what retirement income is about at all. Right? So

Alex Murguia 23:04
it's okay, yeah, but James, that's that. But they're fiduciaries, so it's fine

Wade Pfau 23:12
if your style is total returns. And many of these advisors have a total return style at the personal level, which ultimately means they're comfortable with a diversified investment, but they're imposing

Alex Murguia 23:25
their own worldview on a client.

Wade Pfau 23:28
They don't know they're it's part of it. They just haven't had the opportunity to fully understand there's different preferences, different viable approaches. They just kind of are focused on. This was the one approach. I thought this was the only approach out there, and I'm comfortable with it. So what is this other other business?

James Matthews 23:48
Yeah, I prefer to assume you know incompetence before malice, right? Like, I don't think it's deliberate in any sense. I think it's just one of those things that, until you know it, you don't know any better, and then all of a sudden you learn or see something differently, and then you can't unsee it right? And then you have the obligation to do something differently, I think, at that point, and that's why I'm so glad to see that. You know, this is really starting to become smooth and much more studied in the academic literature. And wait, of course, your huge contributions to that, and it's that is really what I think will move the issue forward. I mean, gosh, go back to ERISA, right? It was 1974 when the law was passed around. You know, the retirement income act that created, eventually, what led, you know, the 401, K plans, adoption. Well, the I in ERISA is the retirement income, right? It's, it was never about wealth accumulation or transfer of assets to your heirs or anything else. It was always about retirement

Alex Murguia 24:42

income. It goes back to the statement. Income is the outcome, yeah, that kind of vibe? No, no, that's good. That's a good level set. What do you feel in terms of just going back, going through some concepts that we wanted to cover here, you mentioned a departure for. On conventional retirement income paradigms and retirement planning. You know, how do you feel the risk sort of moves away from that, and is that, you know, is that a significant movement, or is that just nice to have

Bob French 25:12
Summer's here, and it's the perfect time to plan your next adventure. Retirement gives you a lot more flexibility to travel in the ways that you've always wanted. If you're retired or just getting close, you won't want to miss our upcoming webinar, travel in retirement, new options and opportunities with Dan Vito join us next week, on Tuesday, July 23 at one Eastern to discover how you can make the most of your retirement travels, from exploring new destinations to planning family trips, Dan will show you how to travel smarter and live like a local register now to unlock the freedom and flexibility that retirement offers for the best vacations of your life, Sign up today at resaprofile.com/podcast you don't miss out.

James Matthews 26:03
That's a That's a good question to ask from the perspective of like, if you think about the orientation of the RESA right, your horizontal axis being your safety first on one end, on the left side, right and total returns on the other side, just acknowledging the fact that a safety first type of strategy, right? So if maybe somebody wants 100% of their retirement spending protected with contractual income right, whether that be life annuities or income annuities, whether that be pensions and Social Security or, you know, even like permanent life insurance, whatever, right, that that is a perfectly viable and valid approach to retirement, right, right? Like to some people, probably at least half the world, that that's a novel concept, right? And your way, your book, your your safety, first retirement planning book, goes into great detail into that subject, right? And I think for a lot of advisors, frankly, that was the first time they'd ever seen or even contemplated some of what you present in that book, with the research supporting it. And so you know, there again, just the fact that somebody in the industry who doesn't really have a horse in the race in the same way that you know, somebody in an advisor, a client, facing role for perhaps you know, or somebody you know, leading an organization that sells a product of a certain company, somebody from the academic community that's validating things that have been known for some time, right? But doing it in a way that we now have academic research supporting it, well, you get a different degree of credibility at that point. A different type of advisor is now paying attention to what you're saying, and the fact that that's a very client driven approach is the other thing I felt like it was pretty appealing, because one direction I think the industry is moving that's positive is one that's away from being so strategic and product driven, and one that's really being driven more by the client, and Being in a more of a, maybe a human, first type of of planning environment where, you know, we're tailoring things to individual people in a way that's been different, right, than maybe in the past, where the advisor has their preferred approach to something, and everybody gets rubber stamped into that same approach. And, well, if that's not a good fit for you, then you go to a different firm, right? Um, by being willing and able to be more client focused and using, you know, something like the RESA, where the client is now self identifying which preferences they have about how they want to source retirement income from their what they have available, the advisor being able to then pivot and be able to accommodate that in some way that's meaningful to the client and accomplishes their objectives, I think, gives the client or the advisor, rather, a pretty competitive

advantage in the world today that can feel crowded sometimes, versus everything you See being sort of generic and off the

Alex Murguia 29:01
shelf. Yeah. And so then, what factors do you think contribute to suboptimal what's called retirement savings among individuals, and how May the RESA sort of help course correct something like that?

James Matthews 29:17
Well, I think, you know, again, a client's awareness of the impact that different approaches can have mean different outcomes in terms of actual spending numbers, right? So, for example, you know, in a scenario where you're using something like a percentage based withdrawal rate, right? They think like the 4% rule that most people are somewhat familiar with. Well, if your whole premise around how you approach saving for retirement, for example, is based upon this idea that once you accumulate the right account value that the 4% withdrawal that first year is going to then cover your spending in year one of retirement, then you're basically set right. Well, you guys have probably seen that, and you see it in online communities and chats and all all kinds of places, right? That that's a fairly pervasive, I think, default assumption that folks have, but that may or may not have anything to do at all, maybe totally arbitrary when it comes to what that person's actual funding needs for their individual retirement situation might look like, right? So it takes the spotlight off of something that's outside of their control, frankly, to a large degree, and puts it onto something that's completely untethered and arbitrary, when instead they may be able to save less resources. Potentially they could retire sooner. They may have to be able to take less risk than they are. There's all kinds of ways they could approach their own unique retirement picture with a lot more flexibility around it, if they just were using a different approach to produce the income. Right? They're not all created equal. It's not like all four Risa quadrants are going to produce the exact same dollar amount of income every year, but there's very differences.

Alex Murguia 31:05
No, no, no. I think what we're ultimately getting at is, you know, you don't, you don't optimize your retirement on an Excel sheet. And even if you did, frankly, there are still economically other viable strategies on an Excel sheet, optimized form beyond total return. It's just sometimes some people do the quick and dirty and assume that total return, no matter what, is always going to give you the highest like net worth outcome. That's not necessarily the case either. But let's, let's just state stated that rigmarole, though, is done on an Excel sheet. And what we're getting at, to some extent, is you don't optimize on Excel sheet. You optimize based on, existentially, what standard of living you want to live in retirement, which is another way of saying, income is the outcome, really, from that vantage point. And you pointed out something in our pre meeting that Wade talks about, and I'd love to hear Wade and then in your take on this, sure is how you said at the beginning, like when we started the research, we didn't envision the reason being generalizable to other items, to other to other decision making dynamics that you have with regards to retirement planning. Wade, do you want to talk about that? That that initial sort of point, because you you've been talking about it, among other things. And then maybe, you know, give the give the alley oop over to James. Yeah,

Wade Pfau 32:27

yeah, sure. And so just a quick comment about that 4% rule idea that I think feeds into this question too, but like, there's some inherent contradiction with the basic 4% rule, which was that you want predictable income from a volatile investment portfolio, and that's an inherent contradiction. If your total returns, even though 4% is the default in the total return world, really you should be looking into more variable spending strategy, because predictable income isn't generally as important to individuals with a total return style. The 4% real logic really fits better into an income protection framework, because you do want predictable income, but then you may want to use risk bullying and insurance rather than volatile investments to have the most efficient way to build that predictable income. But yeah, I mean that just speaks to as well. Getting more into Alex's question, where, with the RESA, we're looking at specifically how you want to fund essential spending. But there could be a lot of other applications, even things like, there's a big argument about whether you should claim Social Security early and invested, so to speak, or delay to 70 to get the full value of the inflation adjusted lifetime income. Well, that might speak to retirement styles, or if you're more income protection, you're probably going to feel more comfortable delaying Social Security. If you do have a more kind of aggressive total return framework style in your mind, you might think more along the lines of, let me claim Social Security early so that I can leverage my investments and allow for more long term growth. I think this can also fit into conversations around life insurance or reverse mortgages, that at the end of the day, it's or even Medicare decisions. Is another example this where Medicare Advantage plans might appeal more to total returns. Original Medicare with a comprehensive supplement might appeal more to the income protection that you can start to apply the framework to other retirement decision making as well.

James Matthews 34:26
You know, I think you're exactly right. Lee, I mean, I think that's, that's a good observation, sort of in the same way you could apply that same thought process to perhaps, like a risk tolerance questionnaire, right? So somebody who's highly risk avoidant in their preferences there you see that show up in other areas too. They may be you mentioned life insurance, for example. Well, somebody who's highly risk sensitive or loss averse is likely going to put more value on protecting their legacy goals or their incomes if they're still working with life insurance, right? It makes total sense. And I think. Another area where this shows up, really is, you know, or at least, I think about, is the questions that were there, and as the research was being done about people's degree of own self efficacy and their own numeracy, you know, their own belief that they were capable of understanding and having the skills necessary to put together a retirement income strategy, and then their belief in advisor usefulness, right? Do they believe, then how the advisor fit into that? And I would be curious to know, you know, there's a percentage of population I'm sure that just, you know, by statistical accident that answered that their numeracy and that their self efficacy were low, but didn't believe advisors are valuable, right? Like I want to know, what are they telling themselves, right? They're the ones that are following the defaults in a lot of cases, probably honestly, best the best served by help, right? And in terms of them understanding that there really are additional approaches that may be different than what they're aware of presently,

Alex Murguia 35:58
there's a couple of things going on there, and I'll unpack that a little bit James, just so folks, as we've always spoke about Theresa. James is referencing another thing that Wade and I look into is implementation preferences, like, how do you want to implement financial advice? Because this was one thing for us to say, hey, look, this is a style. This is a this is a style that

leads to this approach. And so if you're going to do something with regards to retirement income, this would be the starting point. Be it income protection, until return, what would have be but ultimately, you have to start. You have to start. You have to actually start digging, start doing something. And that leads to implementation. Because as advisors, we've all been there where you have that perfect plan, you hand it off to somebody, you try to work with them to start it. It never gets done. Two years later, they show up your office again, saying, let's go. And you know, it's not that easy kind of thing, right? And they've also thrown away two years where things could have been done. And so we created a scale of implementation that points to four, four types of styles. But we use two factors. We use retirement income, self efficacy, which is more of a localized concept, specifically of how successful do you think you are in solving your retirement income puzzle? You know, it's specific to that. The other one was advisor usefulness. How useful Do you think an advisor is not it's not useful. Like, do you think an advisor can add value? You know, for just for brevity, an advisor can add value. The key is, can it? Can? Do you feel an advisor can add value beyond the expense of having an advisor? And I'm not here to argue for or against. I don't even care what someone's opinion is. I just want to know what it is, as opposed to, Hey, can I change it or whatever? I have my take. James has his take, Wade has his take, etc, right? And so if someone with high advisor usefulness thinks an advisor is cost effective and thinks that they are also very high self efficacious with regards to retirement income, solving the retirement income well, that that's a that's a collaborator, right? That's someone that wants to implement in more of a collaborative milieu. If you're somebody that you don't have high self efficacy with regards to retirement income planning, but you do think an advisor is cost effective, that's a delegate, that's someone that's really outsourcing that, and a validator would be someone that doesn't feel they have high self efficacy, but doesn't think the advisor is worth the cost over the long term. They just want the advisor just to answer this one question, and they'll be on their way, right? That's more, little more transactional, frankly, because they just want to get in and out. That's somebody that just wants perhaps an annuity, or that's someone that just wants a financial plan and that's it, or it's a project based kind of item, and then the do it yourself, or the self directed one thinks that they're smarter than the advisor and feels very confident about what they want to do. You know about them doing it? And so those are the ones that I would venture to say, a lot of them are actually listening to this podcast, frankly, because they just love to dig into the nuts and bolts. And who better than wait, right? And they read all these the preread articles. You know, engineers, they love the stuff, and they want to untangle it and figure it out. The only thing there, I would say, is that there's a difference between knowledge and wisdom. You know that that that kind of thing, like you could know the rules, but wisdom is, you know, James, you can speak from the experience of the 500 clients, whatever that you've seen on one particular topic that you could say, yes, the textbook says this, but knowing your situation and for what I've seen, you better go the other way. You know that kind of thing. That's what those people tend to lack. And then that gets to what your point is about Dunning Kruger, which is, you know, you give someone a numeracy test. We saw the exact we replicated the study weight effectively. Remember the folks that end up scoring on the lowest 20% the lowest quartile, if you will. You know, 25% but you know. I mean, the lowest, you know, the lowest grouping. They thought they did, they over they overestimated themselves the most. It was one of these things. It followed it to a T, and then the ones that did the best underestimated themselves the most. You just see that all the time, right? It's that kind of thing. And I think that's what you were referencing as well. But yeah, if you mix the RESA with that implementation matrix, then you kind of have a good sense of what strategy you want and how you should best implement it.

James Matthews 40:29
Yeah, I think another takeaway from all of that is the this idea that you know people today have sort of a default path carved out for them ahead of time, right? We have things like auto enrollment in 401, K's. You have Q Dias that are whatever the default investment option is. And there's a lot of folks that just, you know, get into their retirement plan that way, and they just coast along through life and eventually then retire. And they do the things that are the defaults that retirement file for Social Security, or maybe they wait till they're 65 to retire because of Medicare or whatever. And I think what's important, really about the Risa is, you know, if we think about these defaults and the population of folks you were just talking about, they're the ones that are probably most helped by a conscious effort by everything from public policy makers to designers of retirement plans to improve or make more broad or more thoughtful, using research from someplace like the Risa to highlight that there's a lot of room for improvement in these default structures that exist around retirement, Right? So if we're thinking about the folks that have low numeracy or self efficacy but don't believe advisors are helpful, then what are they going to do? Right? Well, they're going to do whatever the default is. So if we can knowing that and knowing things like different approaches to retirement income planning, maybe there's a way that the actual default decision structures can get improved, so that people are not leaving money on the table, or they're not making less than optimal choices given what they have, stuff like lifetime income in qualified plans, for example, right that we're starting to see a lot of movement and interest in that particular area. That's one of those things where, if that's made easier and made more approachable and more salient to plan participants, maybe that's something that gets adopted more broadly. And you know, that would add some of the either the risk wrap approach, or some even of the more the safety first, the type of approach to a qualified plan that today doesn't really exist. Yeah, so that's kind of what I think the big picture implications could be over time is really starting to unpack some of those sort of second and maybe even tertiary type of opportunities for further research that you uncovered with what you've done so far. And there could be pretty far reaching in terms of the implications on, you know, the retirement planning landscape well at large,

Alex Murguia 43:01
it's interesting. You say this and Wade. Maybe you want to talk about it. We're literally right now in the data analysis part for an investigation we're working on with the retirement income consortium sponsored by Broadridge fi 360 so you know we're going, we're tapping into that vein and Wade without sort of going into like, the details of what we're seeing or potentially lining up, what hypothesis are we coming in at with this?

Wade Pfau 43:29
Well, yeah, I mean, since secure act in 2019 laying the foundation to make it easier, we're seeing a lot of conversation right now about bringing lifetime income options into the employer based retirement plan world. And so that's what this study, Alex mentioned, is all about. Can we use the RESA to help identify reasonable default, qualified default options, not necessarily investment options, but retirement income options for the plans based on the demographic characteristics of the plan participants. And I think James, that's another area where you've been thinking about, like, just differential impacts for different demographic cohorts. It's definitely something we're looking at with this research as well. But if you had some further ideas in that area, about like, policy initiatives or other things where we

James Matthews 44:21

can mean, yeah, I mean, I think, like, one thing back on, I think, was episode 66 that that you had Jason figner on. I mean, just what he's done, for example, 6363 what he did with, has done with Social Security and just, you know, talking about improving things, or changing things like the language on a Social Security statement, right? It's amazing to me, even today, I guess because we're in the industry and we're around this a lot, but just the lack of awareness and clarity about how Social Security claiming works. I mean, I used to do social security seminars all the time for that. Reason, because the magnitude of the difference of the value in some folks, especially if they're what we might call more under saved, or they're more marginal or more fragile, from a retirement savings perspective, the value of social security may be their biggest retirement asset, and so the ability to put that number either I don't know that we'd like put discounted present values on Social Security statements, necessarily, but you know, somehow making that more clear and more obvious, I think, is, is one of those types of things that we're talking about, just making it easier for people To really understand that there are other approaches. And you know, little tiny tweaks to things can make really big differences in terms of people's living standards. It gets back to Alex, what you said earlier about the spreadsheet. You know about it being optimal on a spreadsheet? I think that serves as a very good starting point, right? So some a situation that you know, may be optimal, or maybe improves their level of income, or the reliable income, or the longevity of of their plan. I think that's a great starting point, but I think those things have to then be adapted for the individual, right? So you can take a perfectly optimal, you know, think about like consumption smoothing, right? You could take a using the life cycle model, a perfectly level income for life, right? Calculate what that highest living standard income might look like as the starting point, as opposed to starting with that total returns 4% rule Monte Carlo simulation like that's the entry point for so many people into the retirement income conversation. If you start with that highest sustainable living standard, first as the baseline, and then apply the personal element, the human part of you know, Visa, Visa, you get to the optimal strategy that we're now then like tweaking and optimizing for the individual. And I think that is really where the future value of figuring all of this out somehow and maybe not standardizing it, but it becoming more accepted and more generalized and more adopted broadly, I think is really where you would start to see it making an impact on generational retirement security. We hopefully move away from this retirement crisis conversation that's been kind of hanging around for the last two or three decades. But how do we solve it? That may be the beginnings of it.

Alex Murguia 47:37
I think implicitly you see some things like this. I'll say it with my buddies. We said, you asked me earlier. I'm 51 you know, I got plenty I'm in a private sector. I got plenty of time left in me, and I don't see myself retiring anytime soon. But do I wait? I don't know. Am I good but, but I've got plenty of friends that are in, let's say, the services, or, you know, some sort of government agency, etc, right? And they are counting the days till they get their pension. They literally say, I've got three years, four months and seven days. I swear it's like some, some, like, big app, you know, the the apple in Times Square, and that kind of thing, right? And when they talk about them, you know, they made, they made good money, nothing that they're going to be, you know, a millionaire status from their income. You know, some of them may have invested, well, whatever. But the reality is, when they when they talk about their retirement, they talk about saying things like, with my pension and this and that I'm going to be make, I'm making up a number now, just out of this one, I'm going to be making $95,000 a year. You know, I mean, they're not talking about their nest egg account value, they're talking about how much income they're making every year. And they so with that and Social Security and the like. I'm good for

130,000 a year, and that's just me. Then my wife, she gets her school benefits, this and that, and that's another 80 grand, right? And so they're, they're, they're saying this of $210,000 from reliable income sources. They couldn't be happier. They couldn't be happier. And you juxtapose that with someone, let's say like us in the private sector, where you know we're in the business, or we're a little different, but if we own like a plumbing company or something like that, we may be saying, Okay, I've got a $2 million portfolio, but I got to get that up to three and a half million when I retire. They're just thinking about increase, increase, increase of estimates, without thinking, how does that translate into income? You know, that kind of thing. And so I think when you were talking, I don't know, for whatever reason, echoes of that started playing in my head, how it's resonating. Because I to a person, every, every friend that I have that's like, you know, in some sort of government agency. I. Uh, they're, they're, they're, they can't wait to retire because, you know, it's a government job, so they're like, I'm done, but it's also, I can live off of this, and I am happy this maintains my standard of living, and I'm golden and

James Matthews 50:12
interesting too. There, Alex, to your point, you know the traditional conventional wisdom around saving for retirement, whether it's 10% or 15% or right, or whatever you're reading. Well, it doesn't apply to that group of people in the same way. So they may if they're following that sort of foot, you know, fortune cookie or, like, rule of thumb advice, that's that that's out there. Well, they're going to end up really over saved in a lot of they could have had a much nicer life than they did, or a nicer, you know, newer car once in a while to commute in or whatever then, and they end up denying themselves on one side of the spectrum or the other when that was wouldn't have been necessary, had there been some pre planning that was done to take into consideration that, yes, if the goal is, you know, smooth and level lifetime consumption, but on top of that, like we're gonna have all these guaranteed income sources to cover all of that, well maybe they don't. They don't need to save for retirement at all

Alex Murguia 51:06
100% let's say somebody. Let's say the situation I'm talking about this. You know, a couple to government, whatever jobs, they're making 200 grand. I don't even know that's in reality, whether they're making 200 grand, right? And once their pensions, all that kicking effect, and they're retired. They're in at 140 a year. They still have Social Security. It's less, but they still have social security, but they don't have any like work expenses, and they're done with the phase in their life of putting the kids through college and all of that kind of stuff. What's the problem? Right? They're fine. They're good,

James Matthews 51:40
yeah, or you'll see people who, again, this reminds me of the from a behavioral finance perspective, right? The A lot of these things that I'm referring to as default, so that was what they would refer to as anchoring, right? That these, there's these anchors in the retirement timelines. There's age 65 is an anchor point, right? Because people fixate on Medicare. So in your example, what's wrong? Well, maybe what's wrong is that if they don't have continuing health care coverage, they may assume they can't stop working despite the fact that they have savings or have these, these income streams, because they're fixated on Medicare, right? That's an anchor Good point. Good point. Or they're looking at claiming Social Security at certain ages, so that we're allowing these little default, you know, anchor points that exist in the thumbs rules of thumb, exactly that. That's the default. So these rules of thumb, and they're allowing these external default rules of thumb to steer their thinking and, frankly, drive their plan,

instead of, you know, being in in control of it, or working with someone to help develop the plan that not only meets their their desired living standard, but gives them the freedom and flexibility to, perhaps control the timeline or control you know, there's a lot of other variables that go into it, and it's just, it's hard. I think, as a professional, you guys probably see this too, to know that these things are possible, right? When you're meeting with a client or with you're just looking at the landscape more broadly, and see people doing these things over and over again, it bothers me to the point where it's, you want to do something about it, because people have better lives, you know?

Alex Murguia 53:10
No, it becomes the bane of my existence when it deals with the profession, because it's a profession. It's a profession we're in, and we want to be proud of it. But when you see things not done the right way, you're like, you know what's going on here? I don't think, since we're bumping past 50 here, I'll ask you one final thing, and Wade, you know, chime in here, but it's, again, I'm always trying to find seeds for there's professionals, there's advisors that listen to this podcast, but there's a great number of consumers, the consumers listening to this podcast, my takeaway for them to, you know that I would want them to be is, if you don't, if you're speaking to somebody and they don't have this point of view that James has, you know, an advisor can differ. Reasonable people can differ on this strategy versus that strategy, or how to implement this versus implement that. That's fine. I you know that that's that is what it is, right? But if, if you're speaking to an advisor, and they don't, they don't espouse this type of open mindedness that that James is is coming at, I think it's time to bail, frankly, or it's time not even to to sign the dotted line, because that's somebody that's going to jam you into whatever they want, as opposed to trying to find what's the best option for this person. I That's my takeaway from listening to you, that if I was a consumer, I would, I would suggest, you know, it's highlighted with a sharpie way, yeah, oh, sorry, James. I

Wade Pfau 54:37
just said no, no, I think that's well stated. And yeah, James ricp designation holder, and I think that's a great initial signal. But then explore further, talk to that individual and make sure they do have an outlook and mindset aligned with what James was talking about the day that you really want to build the best approach for each individual person. Yep. And

James Matthews 55:00
I think probably my biggest, the thing you could probably maybe take away from or summarize the benefits or the implications, probably is a better word of the Reese's is, you know what we what we hear from Bob at the beginning of every episode is that there's no one right retirement plan that's right for everybody, right? Right? Like, to me, that's the most important message that's come out of all of the research. And frankly, the study of retirement income planning as a discipline is there is no one right approach, right? That there's flavors of different approaches that appeal to different people like anything else in life, right? And that's, that's okay, and that should be normalized, right? It doesn't need to be a contest of which is better or which is no it's about individual preferences, as long as the strategies that are being recommended are built upon a solid, academic and empirical framework, right, or baseline that 100% not fluff underneath of it, but it is, you know, it's a sound, solid approach that then can be tailored to the nuances or the preferences of the individual. To me, that is the most important part, and that, I think, is what's hopefully, you know, starting to be adopted more broadly, to Alex's point, so that that consumers in general are more better off at large, you know, as a group, as a whole, even

those doing things themselves. Um, it's not at all uncommon for me to get inquiries from people who are doing aspects of things themselves, but still have questions, um, or still aren't clear on certain aspects of it. Tax Planning is a big one. Wade, I know, with your update to the to your most recent book, you know, redoing the whole tax planning section, that really is becoming a much more, I think, important, and something that a lot of consumers are really aware of, but not really sure how to approach it, because just their tax person may not do that, and a lot of advisors don't really do that either. So, yeah, sure. Compliance, absolutely but again, I mean, I just appreciate both of you and your contributions to the field, because it's it takes that, you know, it takes people that are your big brain, people that are motivated to be doing this research and publishing it, for the rest of us to take it and try to use it and apply it in our own businesses and our own practices and to help our own clients. Frankly, that's why we're all here.

Alex Murguia 57:27
No, it's kind of, you say, and kind of easy to be here.

James Matthews 57:30
Absolutely thank you. James Wade, you

Alex Murguia 57:34
want to take us home? You brought us You brought us in, right?

Wade Pfau 57:36
Yeah. Thank you so much, James. It was a great conversation. I'm glad we had the time to talk with you today and and have you on the show. And great listening to you, referencing all the past episodes that you know better, reminded me of The Simpsons, the comic bookstore guy who's 63

Alex Murguia 57:55
when he was talking about Bob being in the first 30 seconds, I was like, I don't know what the hell Bob says in the first 30 seconds of this

James Matthews 58:03
episode, I've heard him say it that many times. At least. Someone

Alex Murguia 58:07
asked me this the other day. I kind of say more than 120 less than 140 something like that, maybe.

Wade Pfau 58:15
Wait, yeah, listen, about right, wait, yeah, yeah, somewhere around that marker, but yeah, let me thank you again, James for joining us today, and thanks everyone for listening, and we'll catch you next time, next time on retirement style. Wade

Bob French 58:29
and Alex are both principals McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only, and are not intended to provide specific advice or recommendations for any individual or on any specific securities to

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